Consolidation Characterizes Growth in South Korea's Retail Food Sector

By Sangyong Oh

Two recent events precipitated a revolutionary restructuring in South Korea's overall food retail picture. First, following liberalization of the sector to allow foreign ownership in 1996, foreign investors began introducing hypermarkets, supermarkets and convenience stores. Second, the economic crisis that started in 1997 forced existing supermarkets, faced with more competition and a stringent economy, to begin consolidation.

The coming of larger stores and the consolidation of existing supermarkets have proved to be a bonanza for sales of U.S. consumer-oriented foods to South Korea, which topped $1.25 billion in 2002, up 36 percent from 2001.

Sales Picture Sunny

Food sales accounted for 31 percent of Korea's overall retail sales of $128 billion in 2001. Large outlets captured a 13.3-percent share of overall retail sales in 2001 and a 26-percent share of food sales. They are edging in on the territory of wet markets (traditional street markets), mom-'n'-pop stores and department stores.

Direct retail food sales, at a 1.1-percent market share, are also making significant headway through Internet, TV, catalog and network sales, thanks to changing consumer lifestyles and information technology.

Consumers Crave Convenience

The average Korean household spends about 15.5 percent (or $2,750) of its


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annual income on groceries. Though traditional markets still account for two-thirds of retail food sales, the larger stores, led by hypermarkets, will likely continue gaining market share.

Consumers are contributing to the trend toward larger stores as they indulge a taste for international foods and demand greater value, safety, quality and convenience.

Increasing numbers of dual-income families and single-parent households have upped demand for in-store fast-food, deli, prepared and microwave-ready items.

These preferences are manifested in the increasing sales of U.S. consumer-oriented food products. As Korean consumers become more diversified in their tastes and buying power, U.S. producers can readily step in and supply low-price options as well as luxury premium products.

In 2001, imported products accounted for almost a quarter of processed food sales and 30 percent of unprocessed foods in hypermarkets. Large retailers view an assortment of imported foods as a way to differentiate their wares from those of their competitors.

Most retailers import through specialized importers. International chains, however, do import some products directly. Local mass retailers lack experience and the international networks to effectively source directly, but this will change.

Large international retailers are rapidly acquiring private brands, seeing them as conduits to higher profits and improved store image. Domestic chains are also interested, but have not progressed as far in securing their own brands.

In major metropolitan markets, distributors have a network of temperature-controlled trucks and warehouses. Importers tend to farm out distribution to third-party logistics providers who often supply small and medium-size retailers.

Retail Entry Strategies

Almost half the South Korean population resides within a 25-mile radius of Seoul. This nucleus forms a huge retail market, where congestion and high land prices adversely impact large-scale distribution and food sales. So traditional markets and mom-'n'-pop stores still play a big role there.

Growth in the number of large stores is more pronounced in the newer metropolitan communities encircling Seoul. But supermarkets and hypermarkets are making inroads into traditional markets at the outskirts of established residential areas in Seoul.

Contrary to the distribution problems common for large stores in Seoul, the smaller deliveries for convenience stores allow easier and faster access; consequently, this sector has grown significantly.

The single best strategy for export sales entails working with a reputable importer. Established importers provide an array of services and information:

- Market knowledge
- Guidance on business practices and trade-related laws, rules and regulations

- Sales contacts
- Market development expertise
- Distribution logistics

Exporting to U.S. chains can be simplified by working through their U.S. purchasing headquarters.

Another market entry strategy that can leverage exporters' sales is selling to integrated businesses that operate a variety of retail formats and consolidate purchasing for different retail sectors. Import distribution to department stores remains inefficient, and markups are high.

More Competition Coming

The United States now has a 35-percent share of processed food imports in South Korea. So far, the domestic food industry offers the major competition to U.S. exporters, with a variety of quality products and a sophisticated processing industry.

With trade barriers falling and consumer demand rising for new products, tastes and cuisines, other international suppliers will be vying for customers who currently buy from the United States.

Advantages and Challenges Facing U.S. Products in South Korea

Advantages	Challenges
47 million affluent consumers in densely populated area, with per capita income of $10,000	Low recognition of imported foods outside metropolitan areas
Reliance on imports for 70 percent of food and agricultural needs, falling import barriers and free trade talks that are likely to improve market access	High markups, coupled with import tariffs and taxes, that reduce U.S. products' competitiveness
Younger generation's affinity for Western foods	Few retailers that import directly
General acceptance of U.S. foods	Consumers' bias toward local products
International retail chains leading market growth, offering more opportunity for variety of imports	Sanitary and phytosanitary barriers that constrain imports of meats, poultry, and fresh fruits and vegetables
Comparatively lower import tariffs on consumer products	Added labeling requirements for products of biotechnology

Europe, Australia and New Zealand provide meat and dairy items, and Norway, China, Thailand and Vietnam provide fish.

China is likely to expand its exports of processed products. If South Korea approves a free trade agreement with Chile, consumer-oriented foods will be flowing from that country as well.

Best Picks

The largest and fastest growing categories of imports include: meats (beef, pork and poultry), fresh and canned fruits, fruit juices, jams, canned and frozen vegetables, tree nuts, snack foods, candies and confectionery, beer, wines and liquor, fishery products, dairy products, sauces, spices, oils and pet foods.

Other products with good potential include: processed sausages, hams and turkey, specialty cheeses, noodles, organic products and private brand items. ■

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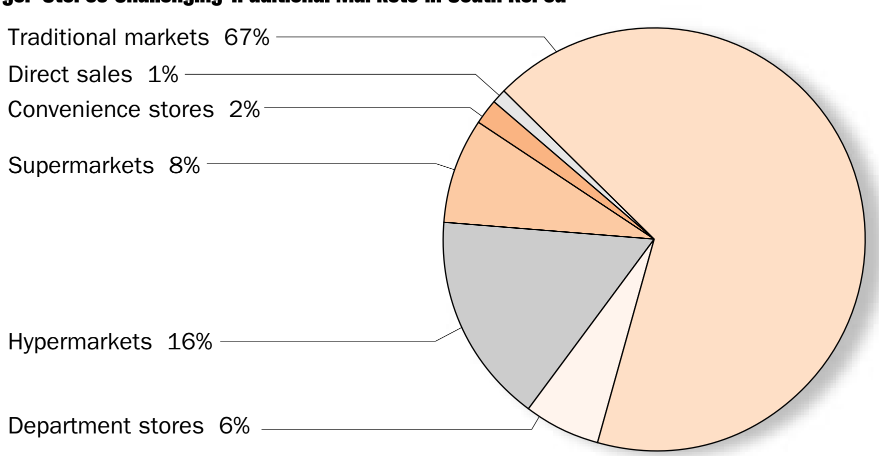
Larger Stores Challenging Traditional Markets in South Korea



Food retail sales totaled $39.6 billion in 2001.